

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATIONS SUBMITTED ON  
BEHALF OF PROLIANCE SURGEONS, INC. AND SWEDISH HEALTH SERVICES  
PROPOSING TO ESTABLISH FREE-STANDING AMBULATORY SURGERY  
CENTERS IN ISSAQUAH**

**PROJECT DESCRIPTION**

On April 1, 2005, the department received an application from Proliance Surgeons, Inc. (Proliance), proposing to establish an ambulatory surgery center in Issaquah to be known as Issaquah Surgery Center. On August 3, 2005 the department received an application from Swedish Health Services (SHS), also proposing to establish an ambulatory surgical facility in Issaquah. Consistent with the public policy goals contained in Revised Code of Washington (RCW) chapter 70.38 that the development or expansion of health care facilities be accomplished in a planned, orderly fashion and without unnecessary duplication, the department determined that the two applications should undergo review on a common timetable.

During this review process, both applications are evaluated following a common timeline. At completion of this review process, a single evaluation is issued that discusses the merits of each application. In the case of a review involving two potentially competing projects, the department's evaluation makes recommendations regarding whether both, neither or one of the individual applicants should be issued a certificate of need.

**Issaquah Surgery Center**

Proliance Surgeons, Inc., P.S. (PS, Inc.) is a Washington State corporation comprised of care centers, ambulatory surgery centers (ASCs), physical therapy, occupational therapy, and magnetic resonance imaging (MRI) facilities. Of these various types of healthcare facilities, only the ASCs are subject to state survey and regulations. PS, Inc. manages and operates 33 physician offices, which are located within King, Pierce, Skagit, and Snohomish counties. Of the 33 physician offices, six have ASCs associated with them. The chart below illustrates six existing PS, Inc. ASCs. [source: CN historical files and PS, Inc. website]

<b>County</b>	<b>Surgery Centers/City Location</b>
King	Evergreen Orthopedic Surgery Center/Kirkland
	Evergreen Surgical Clinic/Kirkland
	<b>Issaquah Surgery Center/Issaquah</b>
	Valley Orthopedic Associates/Renton
Skagit	Skagit Island Orthopedic Surgery Center/Mount Vernon
Snohomish	Edmonds Center for Outpatient Surgery/Edmonds

This application focuses on the ASC located in Issaquah, known as Issaquah Surgery Center (in bold above). On November 17, 2003, the department granted an exemption to PS, Inc. for the establishment of this ASC located at 6505 226<sup>th</sup> Place SE, in the city of Issaquah, in King County. The exempt ASC became operational in April 2004, with two operating rooms (ORs), one procedure room, and support / staff areas. With the exemption, only those physicians part of the Proliance corporation are allowed access to the ASC. [source: CN historical files]

This application proposes to open the Issaquah Surgery Center to other physicians that are not part of the Proliance corporation. PS, Inc. indicates that local surgeons have requested access to the ASC. [source: Application, p11]

Because the project was approved in 2003 and became operational in 2004, the applicant contends that there is no capital cost associated with opening the existing exempt surgery center to other physicians. Consistent with similar applications, because the facility had recently become operational, the department disagreed with this contention. In response to the department's request, the applicant identified a capital cost of \$1,933,501.

### **Swedish Health Services**

Swedish Health Services (SHS) SHS is a private non-profit corporation that provides acute-care hospital services in King County at the following three campuses in Seattle:

First Hill Campus  
747 Broadway

Ballard Campus  
5300 Tallman Avenue NW

Providence Campus  
500 - 17<sup>th</sup> Avenue

All three campuses hold a three-year accreditation from the Joint Commission on Accreditation of Healthcare Organizations. The Providence Campus is designated as a level II trauma rehabilitation hospital.

SHS is also a regional provider of specialized health services, providing adult and pediatric open heart surgery, pancreas, kidney and autologous and allogenic bone marrow transplant, and specialized pediatric services. SHS operates chemical dependency, rehabilitation, pain management, diabetes treatment and education, and sleep diagnostic centers. SHS also provides Medicare/Medicaid certified home health and hospice services to the residents of King County. [source: CN historical files and Application, p4]

In November 2002, SHS submitted an application to establish an ambulatory surgery center in East King County. In May 2003, the department approved SHS's request and awarded Certificate of Need #1264 for the establishment of that ASC. Subsequent to the issuance of the CN, Overlake Hospital Medical Center (OHMC) and Evergreen Healthcare (Evergreen) sought adjudicative review of that project and in July 2005 the department's decision was reversed, making CN #1264 null and void.

In the current application, SHS seeks to establish an ambulatory surgical center in Issaquah, to share space in a building that currently houses a freestanding emergency department, imaging center, lab, sleep lab, and clinical space, all operated by SHS.

The capital cost of the proposed facility is \$7,640,000.

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

These projects are subject to Certificate of Need review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

## **APPLICATION CHRONOLOGY**

March 2, 2005	ISC letter of intent submitted
March 1, 2005	ISC application submitted <ul style="list-style-type: none"><li>• Screening activities and responses</li><li>• Second screening activities and responses</li></ul>
June 20, 2005	SHS letter of intent submitted
August 3, 2005	SHS application submitted <ul style="list-style-type: none"><li>• Screening activities and responses</li><li>• Second screening activities and responses</li></ul>
August 12, 2004	Department begins review of applications
December 9, 2005	Public hearing held in Longview <ul style="list-style-type: none"><li>• Rebuttal comments submitted by applicants and affected parties</li></ul>
February 10, 2006	Department's anticipated decision date
May 12, 2006	Department's actual decision date

## **AFFECTED PARTIES**

Several entities sought and were granted affected person status under WAC 246-310-010 during the review of this project:

- Overlake Hospital Medical Center, an acute care hospital located in Bellevue
- Overlake Surgery Center, an ambulatory surgery center located in Bellevue

Because of the simultaneous review of the two applications, ISC and SHS are considered affected parties to one another's applications.

## **SOURCE INFORMATION REVIEWED**

- Issaquah Surgery Center's Certificate of Need Application (March 1, 2005)
- Swedish Health Services' Certificate of Need Application (August 3, 2005)
- Issaquah Surgery Center and Swedish Health Services' supplemental information (July 21, 2005, October 6, 2005; November 4, 2005)
- Public Comment received at public hearing and throughout the review process
- Issaquah Surgery Center, Swedish Health Services, Overlake Hospital and Medical Center, and Overlake Surgery Center's rebuttal comments (December 28, 2005)
- Historical charity care data obtained from the Department of Health's Office of Hospital and Patient Data Systems (2002, 2003, and 2004 summaries)
- Population data obtained from the Office of Financial Management
- Facility survey information provided by the Department of Health's Office of Health
- Physician licensing data provided by the Department of Health's Medical Quality Assurance Commission.
- Information obtained from the websites of Proliance Surgeons and Swedish Health Services

## **CRITERIA EVALUATION**

To obtain Certificate of Need approval, the applicants must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-270 (ambulatory surgery).<sup>1</sup>

## **CONCLUSIONS:**

### **ISC**

For the reasons stated in this evaluation, the request by Proliance Surgeons, Inc., to establish an ambulatory surgery is not consistent with application criteria of the Certificate of Need Program; therefore, a Certificate of Need is denied

### **SHS**

For the reasons stated in this evaluation, and with the following terms and condition, Swedish Health Services is approved to establish an ambulatory surgery center in Issaquah, within King County:

### **Conditions:**

1. Swedish Health Services' Issaquah ambulatory surgery center will provide charity care in compliance with the charity care policies provided in its Certificate of Need application and the requirements of the applicable law. Swedish Health Services will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by hospitals affected by the proposed ambulatory surgical facility, during the three most recent years. For historical years 2002-2004, these amounts are 1.15% of total revenue and 1.85% of adjusted revenue. Swedish Health Services will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies and applicable law.
2. Swedish Health Services Issaquah ambulatory surgery center shall maintain Medicare certification and a Medicaid contract.

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<sup>1</sup> Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

**A. Need (WAC 246-310-210)**

**ISC**

Based on the source information reviewed, the department determines that the application is consistent with the need criteria in WAC 246-310-210(1) and (2) and WAC 246-310-270

**SHS**

Based on the source information reviewed, the department determines that the application is consistent with the need criteria in WAC 246-310-210(1) and (2) and WAC 246-310-270

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need

The Department of Health's Certificate of Need Program uses the methodology found in WAC 216-310-270 for determining the need for additional freestanding operating rooms (OR's) in Washington State. The methodology separates the state into several service areas, described variously as individual counties, groups of counties, or sub-areas of counties. Each of the two applicants is proposing to establish an ASC in Issaquah, which is located in the area described in the methodology as East King, one of five planning areas within King County. The methodology provides a basis of comparison of existing capacity for both outpatient and inpatient OR's in the planning area using current utilization of existing providers.

The department estimates operating room (OR) need in a planning area using a multi-step methodology defined in WAC 246-310-270(9). This methodology initially determines existing capacity of dedicated outpatient and mixed-use operating rooms in the planning area, subtracts this capacity from the forecast number of surgeries to be expected in the planning area in the target year, and examines the difference to determine a) whether a surplus or shortage of OR's is predicted to exist in the target year, and b) if a shortage of OR's is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.

During the course of the review of these applications, each applicant prepared its own interpretation of the department's need methodology. Those interpretations, and the assumptions used to derive them, are described below:

**ISC**

ISC derived surgical use rates from a 1998 study of ambulatory surgery conducted by the National Centers for Health Statistics, which reported a rate of 119 surgeries per 1,000 residents. ISC assumed a more conservative rate of 102 surgeries per 1,000 residents. As additional inputs to the need methodology, ISC assumed the inpatient and outpatient surgical times contained in the department's 2001 survey of the planning area: 117.5 minutes for inpatient surgeries and 59.5 minutes for outpatient surgeries.

ISC initially applied the above rates to a designated planning area identical to that proposed by SHS in its 2002 application. That planning area consisted of portions of both the historically identified East King and Southeast King planning areas. That planning area was rejected by the department's Health Law Judge (HLJ) in his July 2005 ruling reversing the program's initial

decision. Consequently, ISC revised its application for the East King planning area. In ISC's responses to the agency screening questions, based on population projections for the East King service area, application of the methodology returned an anticipated need for 13.7 dedicated outpatient OR's in 2009.

The physicians who currently utilize the facility already serve patients from the service area and intend to continue to serve those patients through this project. The participating surgeons' actual 2004 volumes and the facility's anticipated utilization for the first three years of operation are illustrated in Table I, below:

**Table I**  
**ISC Utilization Forecast**

<b>Surgery Type</b>	<b>04-12/04*</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>General</b>	423	1,276	1,594	168
<b>Orthopedic</b>	0	250	260	260
<b>Gastroenterology</b>	0	1,100	1,200	1,200
<b>Urology</b>	0	250	260	260
<b>Total All Procedures</b>	<b>423</b>	<b>2,876</b>	<b>3,314</b>	<b>3,400</b>

**\*Facility opened 04/2004**

The projections contained in the table above are based on the applicants' assumption that three of the five existing surgeons will maintain their outpatient surgical volume at the ASC, while the other two will shift their practices from elsewhere in King County to the ASC. In addition, two additional new surgeons have recently established practices and anticipate growing volumes at the ASC. [source: Applicant's July 22, 2005, screening responses, pp15-16]. In addition, the applicants based their orthopedic, gastroenterology, and urology volume assumptions on interest expressed by members of three practices in the area representing those specialties. [source: ISC July 2, 2005, screening responses, pp 16-19]

### **SHS**

Like ISC, SHS based its need forecast methodology on national use rate estimates published by the National Center for Health Statistics. SHS assumed surgery times of 117.5 minutes per inpatient surgery and 68.2 minutes per outpatient surgery, based on the department's November 4, 2002, evaluation of a Certificate of Need application submitted by Northwest Nasal Sinus Center. When applied to the forecast population of the planning area, SHS estimated a need for 19.88 additional outpatient OR's in the planning area.

In its application, SHS noted that its First Hill Campus performed over 2,300 ambulatory surgeries on residents of the East King planning area in 2004. [source: SHS application, p16] In addition, SHS noted that its Seattle hospitals have an estimated 11% share of the inpatient days for residents of the planning area. In building its utilization assumptions, SHS assumed a more conservative 5.4% of the planning area's ambulatory surgeries. SHS intends to allow physicians currently credentialed at SHS's other facilities to practice at the proposed ASC. The facility's anticipated utilization for the first three full years of operation is illustrated in Table II, on the following page:

Surgery Type	2007	2008	2009
Gastroenterology	600	800	900
Orthopedic	300	350	400
ENT	250	300	350
Urology	100	125	150
Eye	150	225	300
Gynecology	100	150	200
<b>Total All Procedures</b>	<b>1,500</b>	<b>1,950</b>	<b>2,300</b>

**Department's evaluation of numeric need:**

Hospital/City
Evergreen Hospital Medical Center, Kirkland
Overlake Hospital Medical Center, Bellevue
Snoqualmie Valley Hospital, Snoqualmie

Aesthetic Eye Associates ASC, Kirkland  
Bellevue Urology Associates, Bellevue  
Center for Plastic Surgery, Bellevue  
Cosmetic Surgery & Dermatology of  
Issaquah, Issaquah  
Eastside Endoscopy Center, Bellevue  
Eastside Podiatry ASC, Bellevue  
Eastside Urology ASC, Kirkland  
Elan Plastic Surgery Center, Kirkland  
Evergreen Endoscopy Center, Kirkland  
Evergreen Orthopedic Surgery Center,  
Kirkland  
Evergreen Surgery Center, Kirkland  
Evergreen Surgical Clinic, Kirkland

Foot Surgical Center of Issaquah, Issaquah  
Henri P. Gaboriau, MD, Sammamish  
Issaquah Surgery Center, Issaquah  
Northwest Nasal Sinus Center, Kirkland  
Overlake Ambulatory Surgical Center, Bellevue  
Overlake Surgery Center, Bellevue  
Pacific Cataract and Laser Institute, Bellevue  
Redmond Foot Care Associates ASC, Redmond  
Remington Plastic Surgery, Kirkland

Sam Naficy, MD, Bellevue  
Skin Surgery Center, Bellevue  
Specialty Eyecare Center, Bellevue  
Virginia Mason – Issaquah, Issaquah  
Virginia Mason – Kirkland, Kirkland  
Washington Center for Reproductive Medicine  
ASC, Bellevue  
Washington Sports Medicine Associates,  
Kirkland

Each of the hospitals listed above has both inpatient and outpatient OR capacity, as such the ORs for all three hospitals should be included in the count of OR capacity in east King County. [source: Department's utilization survey]

Of the 28 ASCs listed in Table IV, 25 of the facilities are located within a solo or group practice. The use of these ASCs is restricted to physicians that are employees or members of the clinical practices that operate the facilities. These 25 facilities do not meet the ASC definition found in WAC 246-310-010 and therefore are not counted in the supply of available ORs. The remaining ASCs: Evergreen Surgery Center (ESC), Overlake Surgery Center (OSC), and Northwest Nasal Sinus Center (NWNSC) were awarded Certificates of Need (CN) for operate freestanding ASCs: Evergreen in 1981, Overlake in 1999, and NWNSC in 2002.

In late 2005, the CN program requested utilization information from each of the facilities in East King County. Of the 28 facilities, 9 facilities responded: 2 hospitals and 7 ASCs.<sup>2</sup> Of the exempt ASC facilities that responded, three are ASCs specializing in plastic surgery, one specializes in podiatry, one in urological procedures, and one in orthopedics. Notable among the missing responses are Overlake Hospital Medical Center, traditionally the largest provider of surgical services in the planning area, Evergreen Surgical Center, and Northwest Nasal Sinus Center. To compensate for these missing surveys, the department reviewed those providers' surveys provided in a prior case<sup>3</sup>. Even with the addition of historical data for seven facilities in the planning area<sup>4</sup>, the department has data for fewer than half of all facilities providing surgical services in the planning area. The department concludes, therefore, that the calculated use rate from the surveys examined (80.38 surgeries per 1,000 residents) understates the actual surgical use rate by an undetermined amount and should not be relied upon to be an accurate measure of the volume of surgical services provided in the planning area.

Each applicant provided an estimated use rate based on the most recent national data on utilization of operating rooms in both hospitals and ambulatory settings. That data was collected by the National Center for Health Statistics (NCHS) for the years 1994 through 1996. ISC provided a copy of an article based on that data that reported rates of 1,047.3 inpatient operations and 1,020.0 ambulatory operations per each 10,000 population<sup>5</sup>. [source: ISC Application, Exhibit III.A.-2] ISC analyzed these use rates and American Hospital Association data to project that an appropriate surgical use rate for Washington is 1 surgery per 9.8 residents, or 102 surgeries per thousand population.

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<sup>2</sup> Evergreen Hospital Medical Center, Snoqualmie Valley Hospital, Evergreen Orthopedic Surgery Center, Skin Surgery Center, Virginia Mason – Kirkland, Stephens Center for Plastic Surgery, Foot Surgical Center of Issaquah, Overlake Surgery Center, Naficy Plastic Surgery & Rejuvenation Center.

<sup>3</sup> Evergreen Orthopedic Surgery Center, June 21, 2005

<sup>4</sup> Overlake Hospital Medical Center, Bellevue Urology, Sammamish Center for Facial Plastic Surgery, Foot Care Associates, Evergreen Surgery Center, Northwest Nasal Sinus Center.

<sup>5</sup> Kozak, Lola Jean, Ph. D., McCarthy, Eileen, and Pokras, Robert, M. S., "Changing Patterns of Surgical Care in the United States, 1980-1995," Healthcare Financing Review, Fall 1999



SHS provided a different article based on the same data that indicated a national ambulatory surgery rate of 1,193.4 procedures per 10,000 population<sup>6</sup>. This study also indicated that patients in the West, a region identified by the authors as the states of Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Hawaii, and Alaska, had a rate of 71.3 visits per 1,000 for ambulatory surgery in 1996. SHS used the former rate (1,193.4 procedures per 10,000 population or 119.34 procedures per 1,000) in developing its need projections.

The department notes that the use rates proposed by each applicant are based on data reporting only outpatient or ambulatory surgeries. Both studies indicate that the ambulatory surgery rates reported exclude inpatient procedures and ambulatory procedures at hospitals that required admission to the hospital. As a result, each of these use rates, while already higher than the total surgical use rate indicated by the department's survey of East King providers, represents only a portion of all surgeries provided. The addition of inpatient surgeries to these projected use rates would only increase them further. The department concludes, therefore, that the total surgical use rate of 102 surgeries per 1,000 population proposed by ISC is reasonable. The department also notes that this use rate has been applied in several other evaluations prepared by the department in the absence of adequate data for various planning areas. While the same logic may indicate that SHS's proposed use rate of 119.34 surgeries per 1,000 may also be reasonable, the department has not applied a use rate higher than 115.42 in any recent evaluation, and has no evidence that the use rates in the East King planning area are significantly higher than other areas of the state.

In opposition to these projects, OHMC and Overlake Surgery Center (OSC) contended that the proper application of the department's need methodology projects that sufficient capacity already exists in the planning area during the forecast period. In support of its argument, OHMC provided documents submitted by OHMC, OSC, EHS, and ESC in response to prior CN applications. The documents provided by OHMC were submitted between January 28, 2003 and June 1, 2004 in response to SHS's earlier application as well as an earlier application from Proliance to establish an ASC in Kirkland. In its rebuttal submission, OHMC provided a copy of a legal brief submitted in the adjudicative proceeding in which it appealed the department's issuance of a CN to SHS in 2003.

In its review of OHMC's submissions, the department concludes that the historical submissions of other parties in opposition to other projects cannot necessarily be considered opposition of those parties to the current projects under review. The department concludes that had Evergreen Surgery Center and Evergreen Healthcare chosen to oppose the projects currently under review, they could have done so. The department did not receive any comment on the current proposals from those parties. The department further concludes that the project to which those comments referred did not propose to serve the East King planning area as identified by either of the current applications. The only opposition on the record in this case is that from OHMC and OSC. The department further concludes that the issues discussed in the legal filing provided by OHMC center on two elements of the evaluation at issue in that case: The first issue was the planning area description proposed by SHS, and the second issue was the manner in which the department

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<sup>6</sup> Hall, Margaret Jean, and Lawrence, Linda, "Ambulatory Surgery in the United States, 1996," National Center for Health Statistics Advance Data, August 12, 1998.

calculates surgical use rates within a planning area. The department's Health Law Judge (HLJ) concluded that the first issue was sufficient to overturn the program's evaluation in that case. That issue is not relevant to the current case since each applicant has correctly identified the East King planning area for the projects currently under review. The HLJ declined to decide the second argument about applicable use rates. Consequently, the program's interpretation of WAC 246-310-270 in calculation of surgical use rates is unchanged.

OHMC also contended that unresolved appeals of CN applications in the planning area and the its calculation of use rate in the planning area using only surgeries performed in hospitals or CN-approved ASCs both require denial of the ISC and SHS projects.

The department notes, as of the writing of this evaluation, no hospitals or ASCs exist in the planning area that have not executed their Certificates of Need. The department does recognize that two proposed hospitals and two proposed ASCs in the area have been denied Certificates by the department and are currently appealing those decisions. Because no issued and unexecuted Certificates exist in the planning area, the department does not conclude that any capacity should be "set aside" contingent upon successful appeals by any of those parties.

Another issue raised by OHMC is its contention that it is currently constructing six additional mixed-use OR's as a part of a new patient tower. OHMC intends to open this tower in 2007. These six OR's were not counted in the department's evaluation of SHS-Bellevue, but they were considered in Proliance-Kirkland. The department reviewed documents on file with its Construction Review Services program and confirmed that plans currently under review by the department include these six additional ORs. As a consequence, the supply of OR's to be counted should include these six rooms currently under construction.

The department, in its survey of existing providers, also obtained information from Snoqualmie Valley Hospital (SVH) about utilization of its ORs. In recent evaluations, the surgical capacity at SVH was not counted because SVH had not performed any surgeries since 1997. SVH's survey response indicated that its ORs had been re-opened and were now available for use. A review of historical financial statements for SVH submitted to the department's Office of Hospital and Patient Data Systems (OHPDS) showed small expenses allocated to SVH's surgical department in 2004 for the first time since 1997 (\$18,280 in direct expenses, .14 FTE). [source: SVY 2004 year-end report, submitted to OPHDS September 28, 2005] Quarterly data submitted to OHPDS for 2005, however, showed no reported inpatient or outpatient surgeries at SVH. Consequently, the department concludes that the operating rooms at SVH should not be counted as available and accessible at this time.

Application of the department's need projection methodology to the planning area's projected population, using the use rate of 102 surgeries per 1,000 population, and counting the unbuilt ORs at OHMC, identifies a need for an additional 19 to 20 outpatient OR's in the planning area in 2009, the third full year for either project. As a result, the department concludes that need for the total of 5 outpatient OR's proposed by these two projects is met.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

WAC 246-310-270(7) states that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels provided by hospitals affected by the proposed ASC. According to charity care data obtained from OHPDS, the 2002-2004 average for the hospitals in the East King planning area is 1.15% of gross revenue and 1.85% of adjusted revenue. In addition, the department uses a facility's Medicaid eligibility or contracting with Medicaid as the measure to make the determination of whether low income residents would have access to the proposed services.

### **ISC**

In its pro forma financial information provided in the application and subsequent screening responses, ISC did not identify charity care as a deduction from revenue. ISC presented charity care information separately in its July 21, 2005, screening response as a separate table; however ISC's November 4, 2005, supplemental screening responses contained the following statement:

*"However, Table 10 might be misleading in that these figures of "Charity Care" are also inclusive of Medicaid care. This definition derived from an internal corporate policy wherein true charity care and Medicaid were accounted together simply because DSHS was never billed for services rendered. In the future, Medicaid and charity care will be accounted separately. Therefore, reported projections of future Charity Care levels, as outlined in Table 10, should simply be reduced by approximately 4% (the projected adjusted percentage of Medicaid) in order to find the projected true charity care levels (exclusive of Medicaid). Please note that even with this clarification, the projected level of charity care for 2006 – 2008 still ranges between 2.1% - 3.5% of adjusted revenues. These values continue to exceed the community standards of 1.01% of net revenues)."*

The department reviewed the amounts identified in Table 10 and concludes that, subject to the adjustment discussed above, the ASC is projected to be providing charity care in excess of the planning area averages.

Additionally, ISC provided the department with draft copies of its admissions and charity care policies. [source: application, appendices III.B.-2 and October 5, 2005, screening responses] The admission policy outlines the process that the surgical center will use to admit patients and provides the overall guiding principles of the ASC as to the types of patients that are appropriate candidates to use the ASC. It is also intended to ensure that patients will receive the appropriate surgical intervention at the ASC. The department concludes that the information contained in this policy appropriately identifies the types of patients that would be eligible for services at the ASC and prerequisites the patient must meet before having a procedure at the proposed ASC. The admissions policy provided discusses the medical conditions/requirements for admission to the ASC, and also indicates that the patients "...shall be admitted to the facility for treatment without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference, and shall be treated with respect and dignity. The charity care policy provided discusses those criteria that may be used to determine eligibility for charity care, and states that "Priority consideration will be given to families with gross income below 200% of the Federal poverty

guidelines.” [source: ISC application, Appendix II.e.-1] The department concludes that any approval of this project would be conditional upon ISC agreeing to use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by hospitals affected by the proposed ambulatory surgical facility, during the three most recent years.

The department concludes that, subject to the condition discussed above, there would be reasonable assurance that all residents of the service area would have access to the services proposed by ISC. This sub-criterion is met.

### **SHS**

Like ISC, SHS did not identify charity care as a deduction from revenue in its pro forma financial information provided in the application and subsequent screening responses. SHS did, however, detail its projected deductions of revenue in a table attached to its October 6, 2005 screening responses. That table identified projected charity care as 1.1% total revenue and 1.61% of adjusted revenue, based on 2004 actual data for SHS as a whole. The department notes that these percentages fall slightly short of the average of the hospitals in the planning area. The department concludes that any approval of this project must be conditional upon SHS agreeing to the condition on page 4 of this evaluation.

Additionally, SHS provided the department with copies of its admissions and draft charity care policies. [source: application, appendices 8 and 9] The Admission Policy outlines the process that the surgical center will use to admit patients and provides the overall guiding principles of the ASC as to the types of patients that are appropriate candidates to use the ASC. It also intended to ensure that patients will receive the appropriate surgical intervention at the ASC. The department concludes that the information contained in this policy appropriately identifies the types of patients that would be eligible for services at the ASC and prerequisites the patient must meet before having a procedure at the proposed ASC. This information also identifies a patient’s right “Not to be discriminated against because of race, color, religion, sex, age, national origin, sexual orientation, disability, or source of payment.” [source: SHS application, p123] The charity care policy outlines the process for requesting charity care and the criteria by which applications are evaluated.

The department concludes that, subject to the condition on page 4 of this evaluation, there is reasonable assurance that all residents of the service area will have access to the services proposed by SHS. This sub-criterion is met.

## **Financial Feasibility (WAC 246-310-220)**

### **ISC**

Based on the source information reviewed, the department determines that the applicant has not met the financial feasibility criteria in WAC 246-310-220.

### **SHS**

Based on the source information reviewed, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

- (1) The immediate and long-range capital and operating costs of the project can be met.

### **ISC**

The anticipated capital cost of this project is \$ 1,933,501 of which \$691,332 is to be spent on equipment, with the remaining \$1,242,169 dedicated to construction and the additional fees and costs associated with configuring the leased space to meet the requirements of an ASC. The applicant intends to finance the project through an interfund loan from Proliance Surgeons. The proposed facility is leased from an entity known as ACS Northwest Properties, LLC, a partnership made up entirely of Proliance employees. ACS, in turn, leases the land from Lakeside Industries.

ISC does not yet have audited financial reports. The projected first-year balance sheet for ISC is shown in Table III below:

**Table III  
ISC Balance Sheet  
First Year of Operation**

	<b>Assets</b>		<b>Liabilities</b>
Cash	10,000	Line of Credit - Proliance	\$ 273,251
<b>Total Assets</b>	<b>\$ 10,000</b>	<b>Total Liabilities</b>	<b>\$ 273,251</b>
		Retained Earnings	(263,251)
		<b>Total Liabilities and Equity</b>	<b>\$ 10,000</b>

As stated in the project description portion of the evaluation, the physical space and equipment for the ASC are leased from ACS Northwest Properties, which leases the building from Lakeside Industries. When questioned about this balance sheet, the applicant provided the following response:

*“Additionally, you have asked for an explanation to detail the lack of such items as fixed assets, long-term liability, and owner’s equity. The reason there is an absence of these items is secondary to the proforma simply representing a cash-based income statement and balance sheet. In addition, the assets and liabilities of ISC are those of ASC (sic) Northwest Properties, LLC owns the facility and not of Proliance Surgeons, Inc P.S., which only has rent and lease expenses.”* [source: November 4, 2005, supplemental screening responses, p2]

CN staff reviewed ISC’s projected balance sheets to determine if the project would be able to meet its short and long term financial obligations. The projected balance sheet for the third year of operation is shown in Table IV on the following page:

**Table IV**  
**ISC Balance Sheet**  
**Third year of Operation**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 10,000	Line of Credit – Proliance	\$ 87,501
<b>Total Assets</b>	<b>\$ 10,000</b>	<b>Total Liabilities</b>	<b>\$ 87,501</b>
		Retained Earnings	(77,501)
		<b>Total Liabilities and Equity</b>	<b>\$ 10,000</b>

Based on the above information, with total assets of only \$10,000, the department cannot conclude that ISC can be reasonably expected to be able to meet its short and long term financial obligations. The applicant did not provide historical or projected balance sheets for ACS Northwest Properties, LLC.

During the review process, ISC provided two different pro forma income statements; one constructed to reflect ISC's anticipated surgical volume with the increased staffing discussed earlier in the application, and one reflecting only the volume projected for its existing staff of five surgeons. Table V below shows the projected revenues, expenses, and net income projected by the applicant for the first three years of operation for the facility assuming the increased staffing and volumes projected to occur if a CN is awarded to this facility:

**Table V**  
**ISC Projected Revenue and Expenses**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
<b>Number of Procedures</b>	<b>817</b>	<b>858</b>	<b>972</b>
<b>Net Patient Revenue</b>	\$ 958,000.98	\$ 1,699,649.58	\$ 1,817,971.34
<b>Operating Expense</b>	1,221,251.49	1,635,251.07	1,696,619.03
<b>Net Income</b>	\$ (263,250.51)	\$ 64,398.50	\$ 121,352.31
<b>Operating Revenue per Surgery</b>	1,172.58	1,980.94	1,870.34
<b>Operating Expense per Surgery</b>	1,494.80	1,905.89	1,745.49
<b>Net Income per Surgery</b>	\$ (322.22)	\$ 75.06	\$ 124.85

Under this set of assumptions, the ASC will operate at a loss in year one, but will be operating at a profit in the second and subsequent years.

The department notes, however, that rent identified in ISC's pro-forma income statement was identified at \$143,272.73 in the first year, increasing to \$195,094.42 in the third year. The draft lease agreement between Proliance and ACS Northwest provided in the applicant's July 21, 2005, responses to screening questions contains a schedule illustrating total monthly rent for the first five years of the lease term. Those estimates are depicted in table VI, on the following page:

**Table VI**  
**ISC Estimated Total Monthly Rent**

<b>Lease Period</b>	<b>Total Monthly Rent</b>
April-June 2004	\$38,216.06
July 2004-April 2005	\$50,522.49
May 2005-April 2006	\$57,906.10
May 2006-April 2007	\$62,876.48
May 2007-April 2008	\$63,720.58
May 2008-April 2009	\$64,148.98

From the monthly rent estimates above, the department has calculated estimated annual rent for this facility for 2006 to be \$733,916.24. This is \$590,633.51 more than estimated in ISC's pro forma income statement provided in its July 21, 2005 screening responses and depicted in Table V, above. This amount is also \$104,028.24 more than the combined "Rent/Debt Service" line in the revised pro-forma income statement provided by ISC to depict the 5-physician estimate discussed above.

Estimated monthly rent for calendar year 2008 would be \$768,074.16, which exceeds the applicant's projected 2008 "Rent/Debt Service" line by \$131,491.16. That difference exceeds the net profit of the facility in the third year of operation in both pro-forma income statements provided by the applicant. The department has been unable to locate any information in the application or screening responses that would explain this discrepancy.

Based on this information, the department cannot conclude that the long-term capital and operating costs of this project cannot be met.

### **SHS**

The anticipated capital cost of this project is \$7,640,000, of which \$3,346,500 is to build out the operating rooms and the remaining \$4,294,000 is related to equipment and supply costs and fees. The applicant intends to finance the project from its cash reserves.

The projected first-year balance sheet for SHS is shown below:

**Table VII**  
**SHS Balance Sheet**  
**First Year of Operation**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 818,254	Current Liabilities	\$ 223,051
Accounts Receivable	519,335	Long-Term Debt	0
<b>Total Current Assets</b>	<b>\$ 1,337,589</b>	<b>Total Liabilities</b>	<b>\$ 223,051</b>
Property, Plant, Equipment	6,912,673	Owner's Equity	7,084,887
Accumulated Depreciation	(942,324)	<b>Total Liabilities and Equity</b>	<b>\$ 7,307,938</b>
<b>Net Property, plant, equip.</b>	<b>\$5,970,349</b>		
<b>Total Assets</b>	<b>\$ 7,307,938</b>		

CN staff reviewed SHS's projected balance sheets to determine if the project would be able to meet its short and long term financial obligations. The projected balance sheet for the third year of operation is shown below:

**Table VIII**  
**SHS Balance Sheet**  
**Third year of Operation**

Assets		Liabilities	
Cash	\$ 4,880,733	Current Liabilities	\$ 309,835
Accounts Receivable	789,940	Long-Term Debt	0
<b>Total Current Assets</b>	<b>\$ 5,670,673</b>	<b>Total Liabilities</b>	<b>\$ 309,835</b>
Property, Plant, Equipment	7,640,000	Owner's Equity	9,882,934
Accumulated Depreciation	(3,117,904)	<b>Total Liabilities and Equity</b>	<b>\$ 10,192,769</b>
<b>Net Property, plant, equip.</b>	<b>\$4,522,096</b>		
<b>Total Assets</b>	<b>\$ 10,192,769</b>		

Based on the above information, the department concludes that SHS can be reasonably expected to be able to meet its short and long term financial obligations.

Based on the projected number of cases shown in Table II, Table IX below shows the projected revenues, expenses, and net income projected by the applicant for the first three years of operation:

**Table IX**  
**SHS Projected Revenue and Expenses**

	Year 1 (2007)	Year 2 (2008)	Year 3 (2009)
<b>Number of Procedures</b>	<b>1,500</b>	<b>1,950</b>	<b>2,300</b>
<b>Net Patient Revenue*</b>	3,791,146	4,894,883	5,766,564
<b>Total Expenses**</b>	3,618,932	4,339,903	4,805,805
<b>Net Income</b>	172,214	554,980	960,759
<b>Operating Revenue per Surgery</b>	2527.43	2510.20	2507.20
<b>Operating Expense per Surgery</b>	2412.62	2225.59	2089.48
<b>Net Income per Surgery</b>	114.81	284.61	417.72

\*includes deductions for charity care

\*\*includes depreciation and interest expenses

SHS's projections identify deductions of 1.1% from net patient revenue for charity care. As stated in the need portion of this analysis, WAC 246-310-270(7) requires ASCs to provide charity care at levels consistent with hospitals affected by the establishment of the ASC. The three-year average percentage of the hospitals affected by SHS is 1.15% of total revenue, more than the proposed level of charity care proposed by SHS. The department concludes, however, that provision of the additional .05% of revenue as charity care, consistent with the condition discussed on page 4, would not materially affect the financial feasibility of this project. This sub-criterion is met.



Based on this information, the department concludes that the long-term capital and operating costs of this project can be met.

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

### **ISC**

The department has examined the projected revenues and expenses per procedure of this project against other similar proposals and concludes that the charges projected by the applicant are reasonable, but, because of the doubt that the ASC's projected revenues can meet its expenses by the end of the third year of operation, cannot be expected to be sufficient to cover the short and long-term costs of this ASC without resulting in an unreasonable increase on the costs and charges for health services in the service area. This sub-criterion is not met.

### **SHS**

The department has examined the projected revenues and expenses per procedure of this project against other similar proposals and concludes that the charges projected by the applicant are reasonable and, based on the utilization projections provided, could be expected to be sufficient to cover the short and long-term costs of this ASCs without resulting in an unreasonable increase on the costs and charges for health services in the service area. This sub-criterion is met.

(3) The project can be appropriately financed.

### **ISC**

As noted above, this project is financed through an interfund loan from Proliance Surgeons. The applicant made a conflicting statement in its July 21, 2005 screening responses that the source of financing for the capital costs is two business loans secured through US Bancorp.

The applicant did not provide details about the US Bancorp business loans or the interfund loan discussed earlier in the evaluation. In addition, the applicant failed to respond to the department's request to explain its chosen financing method and to document why it was the most prudent financially.

Given the doubt created by the discrepancies among the various income statements provided by the applicant, the department is unable to conclude that ISC would be able to meet the obligations incurred in financing this project.

### **SHS**

SHS intends to finance this project from the parent organization's cash reserves. A review of SHS's balance sheets indicates adequate reserves to fund the proposal.

After reviewing SHS's projected income statements and balance sheets, the department concludes that, subject to the condition noted above, this project can be appropriately financed and this sub-criterion is met.

### C. Structure and Process (Quality) of Care (WAC 246-310-230)

#### ISC

Based on the source information reviewed, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

#### SHS

Based on the source information reviewed, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

#### ISC

ISC provided the information depicted in Table X, below, to indicate current and proposed staffing levels:

**Table X**  
**ISC**  
**Proposed Staffing Plan**

	<b>Startup</b>	<b>Year 1 Incremental</b>	<b>Year 2 Incremental</b>	<b>Year 3 Incremental</b>	<b>Total</b>
<b>Medical Director</b>	0	0	0	0	<b>0</b>
<b>Nurse Manager</b>	1	0	0	0	<b>1</b>
<b>Pre-Op/Recovery RN</b>	1	0	1	1	<b>3</b>
<b>Circulate RN</b>	1	0	1	0	<b>2</b>
<b>Instrument Tech</b>	1	0	1	1	<b>3</b>
<b>Scrub Tech</b>	1	0	1	0	<b>2</b>
<b>Reception/Surgery Scheduler</b>	1	0	0	1	<b>2</b>
<b>Administration</b>	1	0	0	0	<b>1</b>
<b>Total FTE's</b>	<b>7</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>14</b>

ISC is proposing to add a total of 7 full-time equivalents (FTE's) to its existing staff of 7 by the third full year of operation. Of these, 3 FTE's are nursing positions. The applicant noted,

*“Proliance Surgeons, Inc. P.S. is a corporation of over two hundred medical professionals spread over more than twenty care centers. Among these care centers are eight ambulatory surgery centers. Proliance has the ability to recruit and fill any staff needs for the Issaquah Surgery Center through it (sic) network of clinics and ASC's alone.*

*In addition to this capability, Proliance has a comprehensive Human Resources Department that actively recruits for available positions. Lastly, Issaquah Surgery Center is in an enviably (sic) position of having a backlog of qualified*

*staff members who currently live in these underserved communities and wish to work closer to home.* [source: July 21, 2005, screening responses, p24]

The department concludes that although the state of Washington is currently experiencing a shortage of nurses, ASCs have been able to demonstrate an ability to hire qualified staff, in part because of more attractive work hours and environment than other health care settings. These factors, coupled with population increases in the service area and the applicant's pool of existing employees, lead the department to conclude it is reasonable to expect the applicant to be able to hire sufficient qualified staff to operate the proposed facility. This sub-criterion is met.

### **SHS**

SHS provided the following table to indicate current and proposed staffing levels:

**Table XI**  
**SHS**  
**Proposed Staffing Plan**

	<b>Year 1</b>	<b>Year 2 Incremental</b>	<b>Year 3 Incremental</b>	<b>Total</b>
<b>Office/Clerical</b>	1	.5	0	<b>1.5</b>
<b>Scheduler</b>	1	.5	0	<b>1.5</b>
<b>Billing/Collection</b>	1	0	0	<b>1</b>
<b>Medical Records</b>	1	.5	0	<b>1.5</b>
<b>Room Prep/Clean</b>	2	0	1	<b>3</b>
<b>RN</b>	6.6	1.4	1.9	<b>9.9</b>
<b>OR Tech</b>	2	1	0	<b>3</b>
<b>Materials Mgt</b>	1	0	0	<b>1</b>
<b>Marketing/Sales</b>	1	0	0	<b>1</b>
<b>Manager</b>	1	0	0	<b>1</b>
<b>Total FTE's</b>	<b>17.6</b>	<b>3.9</b>	<b>2.9</b>	<b>24.4</b>

SHS is proposing to add a total of 24.4 full-time equivalents (FTE's) by the third full year of operation. Of these, 9.9 FTE's are nursing positions. The applicant states, "Swedish Health Services employs a very large number of general and specialized care providers. We have the ability to float selected administrative and technical staff to the ambulatory surgery center as needed. Further, we would expect to offer very attractive work environments and hours, thus attracting local area residents who have necessary skills, but are not currently practicing back into the workplace" [source: application, p 22]. The department concludes that although the state of Washington is currently experiencing a shortage of nurses, ASCs have been able to demonstrate an ability to hire qualified staff, in part because of more attractive work hours and environment than other health care settings. The department concludes it is reasonable to expect the applicant to be able to hire sufficient qualified staff to operate the proposed facility. The department further notes that SHS as a whole has over 7,200 employees. The department concludes that sufficient staff could likely be recruited internally if outside candidates are not sufficiently available. This sub-criterion is met.

(2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

### **ISC**

The applicant provided copies of executed agreements for pathology, laboratory, and anesthesia services. The applicant also noted that it intends to continue existing contracts for biomedical repair, linen supply, janitorial services, biohazard disposal, and medical gas supply. These ancillary and support services are typical of an ASC and the department does not expect the applicant to experience difficulty obtaining those services, particularly since existing agreements are already in place. This sub-criterion is met.

### **SHS**

SHS anticipates that it will provide imaging and laboratory services through other portions of its Issaquah campus. In addition, it will perform scheduling, transcription, security and materials management functions at the ASC, obtaining all other ancillary and support services from the larger SHS system's other facilities. [source: October 6, 2005 screening responses, p6] SHS also notes that it intends to obtain laboratory services from a vendor currently serving the other functions of SHS's Issaquah campus. This sub-criterion is met.

(3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

### **ISC**

ISC provides Medicare approved ambulatory surgery services to the residents of the service area. Within the most recent four years, the Department of Health's Office of Health Care Survey (OHSC), which surveys ambulatory surgery centers, has completed the following surveys on the ASCs associated with Proliance Surgeons.

**Table XII**  
**Compliance History of Proliance Surgeons' ASCs**

<b>County/Facility</b>	<b>Survey Dates</b>	<b>Deficiencies:</b>
King/Evergreen Orthopedic Surgery Center	July 2003	No
King/Evergreen Surgical Clinic	December 2002	Yes
King/Issaquah Surgery Center (the applicant)	April 2004	No
King/Valley Orthopedic Associates	January 2005	Yes
Skagit/Skagit Island Orthopedic Surgery Center	August 2003	No
Snohomish/Edmonds Center for Outpatient Surgery	July 2003	No

As shown in Table XII above, all of the Proliance ASCs have received surveys, all facilities with the exception of Valley Orthopedic Associates (VOA) and Edmonds Surgery Center (ESC) were in compliance, and had no deficiencies cited on the surveys. Both VOA and ESC were cited for minor non-compliance issues, plans of correction were submitted and the required corrections were implemented. [source: facility ownership and survey data provided by the Office of Health Care Survey]

ISC identified Brian J. Plaskon, MD as the current and proposed medical director for the ASC and provided a listing of current credentialed or licensed staff of the ASC. The Department of Health's Medical Quality Assurance Commission credentials all staff in Washington State. A review of the compliance history for the medical director and existing staff reveals no recorded sanctions for all. [source: compliance history provided by Medical Quality Assurance Commission]

Given the compliance history of all the ASCs owned and/or operated by Proliance and the compliance history of the medical director and staff currently associated with the ASC, there is reasonable assurance that Proliance would continue to operate the ASC in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

### **SHS**

As stated in the project description portion of this evaluation, SHS provides Medicare and Medicaid health services through its existing health care facilities, which includes three hospitals on three separate campuses. For this project, SHS intends to license SHS-Issaquah under the First Hill campus hospital license. From year 2000 to present, the Department of Health's Office of Health Care Survey (OHCS), which surveys ambulatory surgery centers, hospitals, dialysis centers, and home health and hospice facilities within Washington State, has completed compliance surveys for the SHS facilities.<sup>7</sup> The surveys revealed non-compliance issues typical for a hospital, and SHS submitted and implemented plans of correction for the non-compliance issues. [source: compliance survey data provided by Office of Health Care Survey]

Given the compliance history of the health care facilities owned and/or operated by SHS, there is reasonable assurance that SHS would also operate the proposed ASC in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

### **ISC**

As noted earlier in this evaluation, the existing ASC is already operating as an exempt ASC. In addition to the ASC, the applicant operates a surgical clinic at the same site. ISC also anticipates cooperating with the nearby freestanding emergency room operated by OHMC.

Based on the above information, the department concludes that there is reasonable assurance that this project would promote continuity of care. Further, the department concludes that ISC's

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<sup>7</sup> Hospital surveys conducted: Providence Campus- August 2001 and January 2004; First Hill/Ballard campuses November 2001 and February 2004.

current relationships within the existing health care system would continue and not result in an unwarranted fragmentation of services. Therefore, this sub-criterion is met.

### **SHS**

As noted earlier in this evaluation, SHS is already serving many of the patients proposed to be served by this project through its existing acute care hospitals, its existing ambulatory surgery center in Seattle, and through its physician's group. SHS contends that this project will reduce fragmentation that currently exists due to lack of capacity and transportation congestion in East King County. [source: application, p24]

Based on the above information, the department concludes that there is reasonable assurance that this project will promote continuity of care. SHS's relationships within the existing health care system will continue and not result in an unwarranted fragmentation of services. Therefore, this sub-criterion is met

(5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is addressed in sub-section (3) above and is met.

## **D. Cost Containment (WAC 246-310-240)**

### **ISC**

Based on the source information reviewed, the department determines that the applicant has not met the cost containment criteria in WAC 246-310-240.

### **SHS**

Based on the source information reviewed, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

### **ISC**

ISC states that "Because of the extreme lack of available operating room space in Issaquah, there were few explored alternatives." [source: July 21, 2005, screening responses, p25] The applicant continues, "Once a decision had been reached to extend services from Renton into the Issaquah area, a search was completed for available office and surgery space. The decision was reached to not postpone action due to the desire and need to be the only group of general surgeons in the Issaquah area. It was felt that a group of surgeons, who already practice in the area, would better serve the patients of the area." The applicant further states that it continues evaluate other options. ISC states that it has considered merging with other entities or entering into shared leasing arrangements, but that the CN proposal presented is its preferred option because it would allow continuous management of the facility, not change the management structure of the other

physicians, and have a low impact on staffing because a shared leasing arrangement would require separate staff.

### **SHS**

In its application, SHS stated that it considered and rejected two alternatives: doing nothing, and expansion of its ASC at the First Hill campus in Seattle. [source: application, p23]

SHS contends that due to lack of outpatient surgical capacity in the planning area residents are underserved, making the “do nothing” alternative unacceptable. SHS also dismissed the issue of expansion of the First Hill facility because it did not address four factors important to its initiation of this project:

1. “Patient preference and convenience
2. increasing traffic congestion – people in our service area are increasingly reluctant to travel longer distances for healthcare services.
3. service area residents are not adequately served with local ambulatory surgery facilities
4. a number of Swedish physicians have expressed interest and support for a Swedish ambulatory surgery delivery site on the Eastside.” [source: application, p23]

### **Department’s Evaluation**

The department concludes that, given the identified need in the planning area for additional OR capacity, superior alternatives to the projects proposed do not exist. In light of the level of utilization of the current providers and the amount of need projected for 2009, other surgical alternatives are not available in the planning area.

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable;

### **Both projects**

This criterion is evaluated in section B(2), above, and is met.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

### **ISC**

This criterion is evaluated in section B(2), above, and is not met.

### **SHS**

This criterion is evaluated in section B(2), above, and is met.